



To: Richmond City Council Date: April 4, 2007
From: Mayor Malcolm D. Brodie, Chair File: 03-1075-14/2007-Vol
General Purposes Committee 01
Re: OVAL LANDS DEVELOPMENT REVENUE ALLOCATIONS – A STRATEGIC
POLICY-BASED APPROACH TO ALLOCATING PROCEEDS OF SALE – THE
ESTABLISHMENT OF COMMUNITY LEGACY FUNDS

The General Purposes Committee, at its meeting held on Monday, April 2nd, 2007, considered the attached report, and recommends as follows:

Committee Recommendation

- (1) *That the balance of the sale proceeds which are available beyond what is required for Oval construction be placed into a Land Replacement Fund to establish a Community Land Bank on the basis that the City would only accrue interest until December 31st, 2007, and that after that the funds would be utilized on the basis that the areas identified in the staff report would be non-exclusive guidelines;*
- (2) *That after December 31st, 2007, interest may be used on projects including the cost of planning, physical assessments, seismic assessments, project feasibility research, project planning, functional space programming, design concepts, geo-technical testing, cost estimating and preliminary design;*
- (3) *That the principal of the funds, along with the interest, could be used to acquire appreciating assets at any time, which would include a minimum of 19 acres of new land to replace the Oval lands;*
- (4) *That the City can borrow for the principal amount of a project against the Fund on the basis that the monies would be repaid with interest at a minimum one-quarter of 1% above the average rate of return realized on the Fund during the previous year;*
- (5) *That amounts designated for the Special Capital Projects and Major Initiatives Fund may be used as later approved for specific capital projects, up to the sum of \$21 Million;*
- (6) *That an amount of 1% of civic taxes would be placed into reserves, in any year for four years, commencing in 2008; and*
- (7) *That this structure would be reviewed effective after no more than four years with status reports at least every six months.*

Mayor Malcolm D. Brodie, Chair
General Purposes Committee

Attach.

VARIANCE

Please note that staff recommended the following:

- (1) That Council endorse the establishment of Community Legacy Funds including the guidelines through which these Funds may be accessed as outlined in the Staff Report (dated March 30, 2007), from the Chief Administrative Officer (CAO).
- (2) That Staff be directed to establish a new reserve entitled Community Legacy Reserve.
- (3) That Staff be directed to prepare the necessary policies and administrative procedures to administer each Legacy Sub-Fund within the new Community Legacy Reserve.
- (4) That the various Legacy Sub-Funds receive funding in the amounts prescribed in the Staff Report effective January 1, 2008 or thereafter.
- (5) That all revenue generated from the Oval Lands Development Project, including the share of the funds that will be transferred to the Richmond Oval Project construction budget, be invested until needed to meet project funding obligations, and that on December 31, 2007 or thereafter, any earned investment income be capitalized and allocated to the Legacy Funds.

Staff Report

Origin

In 2004, the City submitted an RFP bid to VANOC to deliver the long track speed skating oval competition venue for the 2010 Olympic & Paralympic Winter Games on the City-owned River Road property. The Oval site occupies approximately 10.7 acres of the parcel. The remaining 17 acres was combined with a 1.6 acre parcel on the west side of Number 2 Road for a total of 18.6 acres that was rezoned and master planned by the City and offered for sale and lease to the marketplace in 2006 through an RFP. The RFP offered seven parcels of which five will be sold freehold and two leased over 60 years to the successful proponent. Staff note the western 1.6 acre parcel was subdivided from a 2.1 acre parcel to make a .5 acre parcel available for affordable housing development.

The following Staff Report addresses potential uses of the proceeds of the sale.

Analysis

In October 2006, the Chief Administrative Officer (CAO) provided a report to the GP Committee which outlined both the project/construction management and the Oval Lands development and negotiating processes, and updated Committee on the status of those negotiations. The Report highlighted the strong likelihood that the negotiations would result in the City receiving significant revenues beyond the estimates provided by our land consultants and the amount called for in the original Oval funding plan. In fact, the Report indicated that the outcome would provide a higher sale price than the amounts offered in the initial RFP submissions from the Proponents. Staff advised Council that based on current negotiations on the proposals received by the City, the amount of revenue generated from the sale would ensure that Council would meet the following commitments made to the community when the Oval Project was approved: 1) property tax rates will not be increased to pay for the Oval construction; and 2) property tax revenues would not be used to pay for the Oval construction.

Understanding that the sale would likely generate significantly more revenue than is needed to meet obligations to cover a portion of the cost of the Oval Project, the CAO encouraged Council to consider a number of strategic policy-based options for the allocation of the revenue over and above that required to fund the Oval Project. Emphasis was placed on adopting a strategic policy-based approach because of the need to ensure that the proceeds are managed in a responsible manner that will ensure that the greatest benefit to both the present day community who are the owners of the land and the community of the future.

Philosophy Supporting Recommendations For Allocation of Land Development Revenues:

The Brighthouse Estates have served the community well as a legacy asset since its purchase in 1962 for approximately \$1.4 million. It is through the sale of Brighthouse Estates properties that the City's innovative revolving fund was established some years ago and through which the City is presently benefiting on the Oval Land sales. Accordingly, in keeping with the legacy theme of

the Brighthouse Estates purchase, staff are recommending that all of the net revenue over and above that required to fund the Council approved allocation to the Oval Project be allocated to a number of Community Legacy Funds for a period of up to seven years at which time all remaining funds will be allocated to the City's general reserve. Should the reserves and long term outlook at the seven year point warrant a longer term, Council can choose to extend the time frame of each individual Community Legacy Fund at that time. Each fund will be invested with all of the investment income earned on the principal allocated to fund the cost of capital projects and major capital initiatives that have been identified and approved by Council for activation within each legacy fund category with the exception of the Special Capital Projects and Major Initiatives Fund. This Fund will have use of principal and investment income if necessary. The establishment of the Community Legacy Funds is also in synch with the *Community Charter*, Section 188 (2)(e), which requires money received from the sale of land and improvements to be placed in a reserve fund for the purpose of acquiring land, improvements and other assets of a capital nature. This funding cannot be used to pay operating costs.

A second option or variation on this guideline allows for situations for which funding is needed that exceeds the investment income (distributable income) generated. The City would borrow against the principal value of the Fund and repay the loan at an interest rate that is a minimum 25 basis points above the average rate of return realized on the Community Legacy Fund during the previous year.

All aspects of the Community Legacy Fund will be supported by formal Council policy. Therefore, all transactions must be approved by Council and any deviation from the rules that govern access to the Fund would also require a Council resolution that would waive such policy.

The proposed Community Legacy Funds and respective proposed funding allocations are:

1. Community Legacy – Land Replacement Fund (LRF):

A Community Land Bank (CLB) will be established. All surplus lands sold by the City or leased out for periods beyond 60 years will be replaced at a minimum ratio of one acre acquired for every one acre sold. All lands purchased with funding from the Community Legacy – Land Replacement Fund and all existing surplus lands that are not needed for park and open space will be placed in the CLB. The CLB will consist of a combination of money from the LRF and land. In accordance with the terms of the CLB, a minimum of 19 acres of new lands will be purchased and allocated to the CLB.

In order to account for the loss of revenue from other land sales (McLennan lots & Sea Island Fire Hall) that were scheduled for sale in the original Oval Project funding plan but now will not be sold, the value of the allowance for proceeds of this sale will be offset by placing the McLennan and Sea Island properties in the CLB, noting that the Sea Island site will eventually be sold and that Council has already approved the allocation of those funds to the Capital Infrastructure Reserve.

2. Community Legacy - Social/Seniors Housing Fund (S/SHF):

The City is making progress in this area by establishing an Affordable Housing Strategy at a time when the Provincial Government appears to be acknowledging that it has a more prominent role to play and responsibility to provide funding assistance toward solving the housing crisis. It is important that the City be in a position to support the Affordable Housing Strategy with effective action, but that in doing so, Richmond should ensure that the City is not simply taking over the responsibility of senior levels of government. Therefore, staff are recommending that a separate Social/Seniors Housing Legacy Fund be established. Council would initially allocate \$8 million to the Fund which would be in addition to the \$6 million that is presently available in the Affordable Housing Accounts.

It is recommended that at least \$4 million of the S/SHF plus all interest and investment income be designated specifically for seniors (non-market housing) with the City contributing land, preferably on the basis of a 60-year lease. The identification and acquisition of a site should be a priority. If a suitable existing site is not available, the cost to acquire a site will be funded from the S/SHF. If a suitable City-owned site is available, the S/SHF will reimburse the Community Legacy – Land Replacement Fund to the equivalent of the value of the property that is removed from the CLB to support a seniors housing project.

3. Community Legacy - Reserves Assist Fund (RAF):

In 2003, Council adopted the Long Term Financial Management Strategy which calls for the City to continue to build reserves beyond base budget contributions by adding 1% per annum onto property tax rates. By establishing either a temporary or long-term reserves fund, Council would have the opportunity to increase the total value of the reserves through the following options:

- a. allocate a one-time direct lump sum payment to the reserves (e.g. \$25 million) from the proceeds of the Oval Lands sales.
- b. allocate \$25 million to the Community Legacy Reserves Assist Fund (RAF) and dedicate the annual earned investment income to the City's reserves for four consecutive years commencing in 2008 through 2011 as a temporary offset to the 1% addition to property tax contributions to reserves. During this period, the property tax premium collected for reserves would be covered on behalf of taxpayers by the interest and investment income earned on the RAF.

For example, if the RAF earns 5% per annum, a contribution of up to approximately \$1.25 million will be allocated to the reserves. At present, a 1% property tax increase represents a contribution to the reserves of approximately \$1.2 million per year. While facilitating the continued rebuilding of the City's financial reserves, this option also provides property tax rate relief for the City's taxpayers without jeopardizing Council's long-term plan and commitment to building the reserves and protecting infrastructure.

- c. Hybrid Option – allocate a direct lump sum contribution to the reserves of \$12.5 million and place an equal amount into the RAF. This option will provide taxpayers with only partial relief from the 1% property tax increase, but would also contribute a slightly higher amount to the reserves due to the compounding effect of the contribution from the property tax revenue.

Staff recommend option b.

4. Community Legacy - Special Needs Capital Fund (SNCF):

Council would utilize only the annual investment or distributable income earned on the Fund to create a contingency with which to cover the cost of capital improvement projects throughout the City that would improve accessibility and mobility for seniors and people with disabilities. The contingency fund could be used to fund projects independent of the capital program or to augment projects that are funded through the annual capital program. Staff recommend that an amount of \$4 million be allocated to the SNCF.

5. Community Legacy – Facilities Fund (FF):

The City is able to fund parks and roads projects through DCC revenue, thereby ensuring an ongoing funding source is in place that is connected to the rate of growth. City facilities, however, are not eligible for DCC's and, therefore, do not have a continuous or dedicated funding source to support the cost of upgrading or replacing buildings. The FF would generate seed money from investment income earned on the Fund that could be utilized to cover the cost of physical assessments, seismic assessments, project feasibility research, project planning, functional space programming, design concepts, geo-technical testing, cost estimating and preliminary design.

Staff recommend that the FF be established with an allocation of \$5 million.

6. Community Legacy – Special Capital Projects and Major Initiatives Fund (SCPMIF):

Each year, outside of or after final approval of the Capital Plan and Operating Budget, Council receives requests for funding for new projects or initiatives or may identify opportunities that often are worthy of support, but which do not have an available approved funding source. Staff are recommending that Council utilize the investment income earned on the SCPMIF to cover the cost of unplanned minor projects or new initiatives that arise from time to time, but which cannot be funded from traditional or established funding sources. This Fund could also be utilized to fund future projects such as improvements to the No. 3 Road streetscape in conjunction with construction of the Canada Line, or Oval conversion projects that will facilitate advanced introduction of enhanced community programming in the Oval. Staff recommend that in light of the significant major projects and events underway in Richmond, that \$21 million be placed in the SCPMIF.

7. Community Legacy – Sustainability Capital Fund (SCF):

Council recently approved a Staff Report recommending that the City establish a Sustainability Profile to guide our thinking and practices on the three pillars of the Triple Bottom Line – Social, Economic, and Environmental impacts. Many governments of all levels are acknowledging a new reality about the environment and climate change; however, it is important that we change our practices if we are to make a difference. Staff are recommending that the earnings on the SCF be utilized to fund research on new sustainability capital projects, resources, programs, and new initiatives so that the Sustainability Program and related strategies can be implemented and acted upon immediately.

Staff recommend that the SCF be established at a value of \$5 million.

8. Community Legacy – Arts & Culture Capital Initiatives Fund (ACCIF):

The City has taken significant steps to advance arts and culture in the City; however, available funding continues to fall short of levels necessary to address our goals and aspirations. The ACCIF will provide ongoing funding to support the completion of a series of minor arts and cultural capital projects throughout the City during each year that the fund remains in place.

Hereunder is a summary of the above-noted Funds and staff's recommendation on the allocation of land sale proceeds:

Legacy Sub-Funds	Minimum
1. Community Legacy – Land Replacement Fund – Establish a Community Land Bank	\$25 million consisting of cash & land assets
2. Community Legacy - Social Housing Fund	\$4 million
- Seniors Housing Fund	\$4 million
3. Community Legacy – Reserves Assist Fund	\$25 million
4. Community Legacy – Special Needs Capital Fund	\$4 million
5. Community Legacy – Facilities Fund	\$5 million
6. Community Legacy – Special Capital Projects & Major Initiatives Fund	\$21 million
7. Community Legacy – Sustainability Fund	\$5 million
8. Community Legacy – Arts & Culture Capital Initiatives Fund	\$4 million
Legacy Capital Contingency	\$2 million - \$5 million
Total	\$99 million to \$102 million

Financial Impact

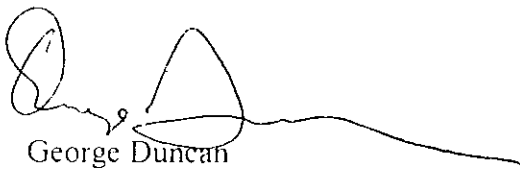
It is recommended that the Community Legacy Funds are established effective January 1, 2008 or thereafter. All net proceeds of the Oval Land Sales at \$141 million will be directed to the newly created Community Legacy Reserve and then invested until the initial funding to meet cash flow requirements is needed. The City will likely generate between \$2 million to \$5 million in investment income over the six to eight months interim period. If capitalized, this investment income will increase the total Fund value to between approximately \$99 million to \$102 million by January 1, 2008.

Although the hot real estate market, timing, in general, and the thorough planning process for the disposal of this particular asset have produced extraordinary financial results, there is a need to temper the perception that the excess revenue (approximately \$100 million) beyond the amount required to meet our original Oval construction financial obligations (\$43 million) is a windfall that should be utilized to cover the costs for present day needs. In order to address this possibility, staff established principles to guide recommendations on potential uses for the funding. These principles include:

- **Legacy** – the Funds must be allocated in such a manner as to ensure that this money or uses to which it is put will benefit the whole community and be available to future Councils and administrations. Therefore, the principal value of the Legacy Funds must be maintained or offset by the acquisition of an appreciating asset such as land or through limiting expenditures to the value of revenue earned on the Fund.
- **Sustainability** – the revenue should not be allocated to uses that cannot be sustained without benefit of additional funding from other sources in future. The basic principal value of the Fund should be protected.
- **Community Benefit** – while recognizing the prudence and value of ensuring the land sales revenue will be managed to ensure future generations will benefit from the disposal of the asset, there is a need to ensure that the current community of citizens and taxpayers also realize a visible benefit because as the current residents, they are the owners of this wealth; essentially, it is their asset the City has sold.
- **Sound Fiscal Management** – staff used the same philosophy, principles, and strategic objectives to guide the development of the Community Legacy Fund concept as were embraced in the development of the Long-Term Financial Management Strategy.
- **Term** – the CL Funds will be maintained for up to seven years at which time the funding will be placed in the City's reserves with all interest and investment income being allocated to the reserves in order to protect the basic buying power of the reserves. At approximately four years, an assessment of the health of the City's reserves will be conducted to determine if an extension of the CL Funds is warranted.
- **Coverage** – the unanticipated funding should benefit the broadest possible range of community interests and, therefore, should not be consumed to support any one or a few initiatives.

Conclusion

The City has generated a significant financial gain through the sale and lease of the River Road Oval Lands Development site. As there could be much pressure and many demands placed on Council from many sources and competing interests, it is important to ensure that a sound plan for the allocation of the funds is in place. Staff proposes to establish a menu of Community Legacy Funds, complete with a policy structure and principles that guide access to the funds while protecting the principal value. The proposed Legacy Funds will assist Council to act prudently in regard to financial management of this unanticipated revenue while providing real benefit to current and future citizens of the City.

A handwritten signature in black ink, appearing to read 'George Duncan', with a long horizontal flourish extending to the right.

George Duncan
Chief Administrative Officer
(4338)

GD:acs